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C O N F I D E N T I A L SECTION 01 OF 02 BAGHDAD 000836

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TAGS: [EAID](#) [ECON](#) [ENRG](#) [IZ](#)
SUBJECT: REQUEST FOR EXPEDITED APPROVAL TO PROVIDE
TECHNICAL ASSISTANCE TO GOI UNDER SECTION 607 OF THE
FOREIGN ASSISTANCE ACT

Classified By: ZALMAY KHALILZAD, Reasons 1.4 (b) and (d).

¶1. (C) This is an action request. Please see paragraphs 9 and ¶10. This is a joint cable from Ambassador Khalilzad and General Petraeus.

¶2. (C) Summary: Government of Iraq ministries continue to face major obstacles to the prompt execution of their budgets, particularly major procurements of goods, services, and infrastructure. This lack of capacity has negative impacts on numerous governmental functions, particularly the energy sector. To provide assistance as GOI capacity improves, Mission-Baghdad and MNF-I have determined that the Department of Defense is well-suited to provide expedited procurement assistance under the authority provided by Section 607 of the Foreign Assistance Act. For instance, the GOI Ministry of Electricity has expressed specific interest in high-priority procurement of additional fuel for power generation and specific power plant upgrades needed to meet Baghdad's summer electricity plan. Mission-Baghdad and MNF-I request that Washington (State & Defense) expedite all necessary approvals for negotiation and conclusion of a Section 607 agreement and that a small team of experts be sent immediately to Baghdad to support such efforts. End Summary.

¶3. (C) The USG and GOI have instituted a number of initiatives and reforms to address systemic weaknesses in GOI capacity for resource planning, public finance, and procurement. Even as these take hold, the GOI must still demonstrate the capability to use its own resources to deliver services that benefit the Iraqi people.

¶4. (C) Electrical power generation is among the most critical of these services. It relies on ready supply of refined fuel product. The supply of such fuel has been seriously constrained by difficulties in boosting oil production, refinery capacity, and internal logistics, as well as impediments to the importation of refined products from neighboring countries. USG officials, Embassy and MNF-I, have met frequently with the Minister of Electricity, the Minister of Oil, the Deputy Prime Minister for Economics, and the Deputy Prime Minister for Services to develop alternatives to solve this fuel crisis.

¶5. (C) Among the options potentially available to GOI officials is to leverage the significant procurement capacity and expertise of USG agencies, especially elements of the Department of Defense, through a Section 607 agreement. This capability would not supplant the need for GOI ministries to improve their procurement capacity, but simply provide a procurement mechanism that, in the short term, takes advantage of USG's ability to provide rapid, transparent and flexible contracting.

¶16. (C) The South Oil Company made initial inquiries to GRD on February 5th regarding a Section 607 agreement for continuing oil well 'workover' projects with GOI funding. The initial cost of this work would be \$30 million, but could be expanded. The Ministry of Oil expressed interest in the concept, subject to concerns regarding competitive bidding and approval by DPM Salih.

¶17. (C) The Minister of Electricity subsequently expressed strong interest in using Section 607 authority for at least two projects. Completing expansion of the Mussaib power generation station and topping plant facility, estimated at \$20 million, could potentially add 400-500 Mw to the Baghdad power grid. In addition, expedited procurement of \$100 million of imported diesel fuel, including logistical support, would allow the Qudas power plant to supply approximately 132 Mw of power for 143 days. Both efforts are well within the MoE's budget for 2007. The MoE is likely to send a letter to DPM Salih or the Prime Minister expressing his interest in Section 607 authority. While other senior GOI leaders remain to be fully briefed on the proposal, Mission and MNF-I believe that these expressions of interest should be encouraged. In order to complete procurement and delivery of these projects this summer, a Section 607 agreement would need to be in place by May 1, 2007.

¶18. (C) Provision of this authority would permit DoD to sell relatively small amounts of commodities and services with high potential impact to Iraqi ministries. In addition to the electrical sector projects described in paragraph 7, a number of other urgent projects could be completed if a Section 607 agreement were in place. Such projects include retrofitting of the Mosul Dam, urgent repairs of the Basrah Sweetwater Canal, and security upgrades to ministry and judicial facilities to enable the uninterrupted functioning

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of federal and provincial government.

¶19. (C) USG agencies should be prepared to act promptly on the formal submission of the Iraqi request. To be prepared, we should start now by reviewing whether Circular 175 approval is needed to initiate formal negotiations with the GOI. Simultaneously, the Department of Defense should submit a request for a Section 607 determination by the Director of Foreign Assistance. Past precedent indicates this determination can be made in advance of a formal request from the participating government if well-justified by the requesting agency. Finally, a small team of experts should be sent immediately to Baghdad to support the Post and MNF-I representatives leading U.S. efforts to negotiate and conclude an agreement with the Government of Iraq by May 1, ¶2007.

¶10. (C) While initial GOI interest is focused on a limited number of projects, the Mission and MNF-I recommend that the associated agreement between the US and GOI be made sufficiently broad to include a range of procurement needs in civilian ministries. Under such a framework agreement, the USG and GOI could conclude "Implementing Arrangements" specific to each ministry's needs and resources. The Mission and MNF-I concur that any procurements under such Implementing Arrangements should require advance financing from the GOI ministries via a letter of credit or deposit in a USG account, not on reimbursable basis. This will avoid the diversion of USG resources for initial procurement, as well as the difficulties encountered with GOI reimbursement of DFI-related procurements.

¶11. (C) Mission and MNF-I are cooperating to develop a suggested draft section 607 agreement, Implementing Arrangement, and Financing Arrangement.
KHALILZAD